

**PROPERTY TAX INTERIM COMMITTEE
MCCALL, IDAHO
AUGUST 24, 2005
1:00 P.M.**

The meeting was called to order by Cochairman Senator Shawn Keough at 1:00 p.m. Other members present were Cochairman Representative Dennis Lake, Senator Brad Little, Senator John Goedde, Senator Tim Corder, Senator Monty Pearce, Senator David Langhorst, Senator Elliot Werk, Representative Bill Deal, Representative Mike Moyle, Representative Eric Anderson, Representative Wendy Jaquet and Representative George Sayler. Representative Gary Collins was absent and excused. Staff members present were Mike Nugent, Paige Parker and Toni Hobbs.

Others present included Peter Johnson; Diana Thomas and Sharon Widmer, Washington County; Dorothy and Richard Mott; Bette Rasmussen; Arden Kelsey; Cathy and Ron Daly; John Dale; Ken Arment; Betty Thomason; Joe and Judy Shoplock; Diane Hendrickson; Mike and Ann Potts; Chuck and Carla Locuson; Valley County Assessors; Marv and Jeanne Frator; Lillian Eccher; Marion Johnson; Wayne Freedman and Murray Dalglish, Council School District; Augusta McGowan-Hass, Valley County; Ted and Julie Thornton; Deedee Gossi, Valley County Assessor's Office; Robert and Shirley Ward; Shirley Verbanac; Ray and Bonnie Stovall; Ed and Nancy Johnson; Marlys Johns; Tom Kerr, Valley County Commissioner; Mike Keithly; G.R. Williams; Ronald Zarbrusky; Glenda Frei; Charlotte DeArmond and Betty DeVeny, Idaho Farm Bureau; Don DeArmond; Stan Kress, Cottonwood School District #242; Dan and Cathie Largent; John and Darlene Bingaman; Renee Mitich; Martin Burke; Ray Stark, Boise Metro Chamber of Commerce; Katharine Gerrity; Paul Castroville; Herb and Mardi Keen; Barbara Morgan; Gordon Colburn; Clare Baldwin; George Stroh, Simpco Estates Property Owners; Char Zarbrisky; Kate Anderson; Dick Norquist; John Parker; Mardell Edwards; Gary and Sharon Albright; Lynn and Doug Westwater; Bob and Meridion Allis; Fran Thompson; Gene and Molly Senkbeil; Richard Wilkin; Monica and Jack Childress; Kyle Gorham, News; Frank Eld, Valley County Commissioner; Cindy Schiller; Mary Kolsky; Joel Layne; Don Layne; Ellen Ikola; Marie Strode; George Cox; James and Nancy Brown, Simpco; Don and Patricia Smith; Stanley and Barbara McGowan; Kathy Phelan; Betty Weidor, MD School Board; Dave and Mary Rogers; Don and Billie Wilder; Greg Schade; John Carley; Shirley and Tom Ruklic; Letha Gribble; Judith Gillam; Roger Snodgrass; Steve Ahrens, IACI; Stacy LaFay, Adams County; Bill and Gail Mott; Bob Campbell; Darrell Kolsky; Kris Strike and Larry Remaklus; Strike Cabin; Vic Koshuta; Wendy Green; Cutter Umbach; Don Chapman; Vern Farris; Olive Louderbough; Jill Smith; Dr. Arlan Smith; Jim and Carolyn Trino; Thad Duel; Ann Lloyd Edwards; Gayle Wilde;

Karen Johnson; Ronn Julian; Maria Schuman; Judy Brown; Becky Johnstone; Mr. and Mrs. John Boydston; Kathy Mertz; Phil Davis, Valley County Commissioners; Ginny and Suzanne Ernsberger; Wayne Burkhardt; Larry Adkins; John Hubbard; Jim and Lyn Kroll; G.L. Barry; Lois VanHorne; Jim Boring, Valley County (Alpha District); Matt Williams, Valley County Prosecuting Attorney; Bob Secrist; Susan Vasskuhler; Lee and Lu Crawford; Michael McLaughlin; Mr. Lane; Patsy Kelly; Aaron Mathis; Lonnie and Annette Park; LeAnn Trautman, Lewis County; the Powers Family, Phil Ameral and Representative Ken Roberts, District 8.

After opening remarks from the cochairmen, **Mr. Dan John, State Tax Commission** was introduced to give a short presentation on how property taxes are figured. This complete presentation is available as an attachment to these minutes at www.legislature.idaho.gov.

Mr. John explained that property taxes are only used to fund local government in Idaho with \$1.14 billion being collected in 2004. This is the largest source of revenue in the state. In 2002, Idaho ranked 31st among the states in terms of the percentage of income that we spent on property tax. This is about 10% below the national average. **Mr. John** said that does not mean an individual's property tax is 10% below or above the national average. This is just the state as a whole.

Property taxes in Idaho are raised using a budget driven model and a rate driven model. The budget driven model is used by all taxing districts in one form or another.

The rate driven model is used as a way of computing the budgets for school maintenance and operation. It is only used by schools and only for maintenance and operations. All other types of school levies (supplemental, bond, plant facilities, etc.) use the budget model.

Mr. John explained that a taxing district's current year maximum budget is limited to the prior year's budget plus 3%. The budget is allowed to increase more than 3% based upon new construction and annexation. Districts are not required to levy to the maximum. If they do not levy the maximum, they end up with a "foregone balance." These districts can go back at a future time and levy for the foregone balance. Increases in value do not automatically result in an increase in tax.

The rate driven model is much different. State law requires school districts to compute the budget for maintenance and operation by multiplying the prior year's taxable value by .003. They have to do this in order to share in the equalization formula used for the money that comes from the state. Unlike the budget driven model, an increase in property value will result in a tax increase of the value increase with a one year delay. If your value goes up this year, you will have a tax increase next year.

Mr. John stated that the budget model is like a balloon. If taxable property value is exempted from the tax base, the property tax bill is shifted to other property taxpayers with the local taxing district being held harmless. Under this set up, if someone gets an exemption, someone else picks up the difference. The district gets the same amount of money.

Under the Rate Driven Model (School District M&O levy), exempting taxable property from the tax base does not cause a shift to other property taxpayers. The loss of tax revenues is absorbed by the School District.

According to **Mr. John**, there are two main reasons why residential property taxes are increasing so rapidly in most taxing jurisdictions. One is the frozen nature of the 50/50 homeowner's exemption, which causes a home's increase in taxable value to exceed the home's increase in assessed value. The second is the Public Schools maintenance and operation levy rate, which when property values rise rapidly, causes increases in tax.

Levies are calculated as follows:

- , Each property is appraised to find its market value.
- , All values within a taxing district (school, city, etc.) are summed.
- , Homeowner's (and other) exemptions are subtracted.
- , The taxing district computes its property tax budget by subtracting other revenue sources.
- , The levy rate is the property tax budget divided by the net taxable value.

$$\text{Example: } \frac{\$ 80,000}{\$10,000,000} = 0.0080 = .80\%$$

Property taxes are collected in the following manner.

- , 1. Levies for your taxing districts are added together:
 - , a) County b) School c) City d) Special Districts
- , 2. The total of these levies is multiplied by your taxable value to determine your tax.

Example of Computation

Assume levy = 0.01743 (average urban ooc-residential rate in 2004)

House Value: 60,000

Lot Value: 15,000

Total Value: 75,000

Less Homeowner's Exemption: < 30,000 >

Taxable Value: 45,000

$$45,000 \times 0.01743 = 784$$

$$\text{Effective tax levy: } 784 \div 75,000 = 1.05\%$$

Senator Keough said that the purpose of having **Mr. John's** presentation was to try answer the question of how the property valuation equates to the property tax bill. She explained that Idaho's tax system is known as the "three legged stool" made up of property tax, income tax and sales tax. She added that Idaho has a constitutional framework within which it has to work.

Senator Keough stated that the committee is holding these meetings to listen to citizens regarding property taxes and to listen to suggestions for solutions to the problem. She said that after hearing from citizens in 12 communities throughout Idaho, the committee will meet again this fall to sort through the testimony to decide whether legislation should move forward. The committee will make a report, regardless of whether legislation is prepared, that will go to the entire legislature. She explained that tax bills start in the House Revenue and Taxation Committee and that Cochairman Representative Lake is the Vice-Chairman of that committee.

Senator Keough noted that there is also an initiative process that is being talked about across the state and in her opinion this is a tandem process for those that feel that the legislature is not progressing as it should.

The following people testified.

Mr. Peter Johnson

Mr. Johnson said that Idaho Code Section 63-602FF, Special Legislation is an unconscionably bad law. This law, passed late in a past legislative session, created a subsidy or tax break for speculators, developers and buyers of high value properties in Valley County and throughout the state. This law now allows developers and speculators to enjoy the benefits of the agricultural use exemption until improvements are constructed.

As a result, properties in Valley County costing up to \$500,000 per lot that in no way qualify as “agriculture” in Tamarack, Blackhawk Estates, Jug Mountain Ranch and similar developments are only paying a few dollars in property taxes. The county’s shortfall arising from this subsidy has fallen on the shoulders of existing property owners. **Mr. Johnson** said the property taxes on his two acres in Valley County have doubled to five figures since 2002. He said that he is willing to pay his fair share but does not think he should have to pay increases to support the speculative, developer/buyer subsidy.

Mr. Johnson noted that HB254 that was supposed to close the loophole allowed the speculators, developer/buyers to continue enjoying this subsidy over a 14 year period. He said the Governor did the right thing by vetoing that bill.

Mr. Johnson said that he has been advised that Idaho Code 63-602FF violates the Idaho Constitutional requirement that taxes be uniform, valuation be “just” and exemptions be “necessary and just.” A court challenge to this bad law has been filed and is in the process.

Mr. Johnson said that with Idaho Code Section 63-602FF nullified by the Legislature this session, Valley and other Idaho counties will, once again, be in a much better position to fairly allocate tax revenue needs across a much larger tax base.

Mr. John Dale

Mr. Dale lived in California until 1979. He explained how Proposition 13 worked in California. According to **Mr. Dale**, people were afraid services and education would be cut but that did not

happen.

Mr. Ken Arment

Mr. Arment explained that he experienced a 200% increase in his assessed property value. He suggested allowing a local homeowner's exemption for certain counties. He has been informed by the local prosecuting attorney that such a thing would not be a violation of the uniform application of taxing authority because it would be uniform within the taxing district (the county).

Mr. Murray Dalglish - Superintendent of the Council School District

Mr. Dalglish said that some type of property tax reform is definitely needed at this time. But, at the same time, cutting property taxes without making it up somewhere else will have a detrimental effect on his school district.

Ms. Deedee Gossi - Valley County Assessor's Office

Ms. Gossi said that requiring full sales price disclosure would be a big help in solving the property tax problem in Idaho.

Mr. Tom Kerr - Valley County Commissioner

Mr. Kerr stated that it is the job of county commissioners to raise enough money in a variety of forms to serve the people of the community and to provide adequate raises to allow them to keep their employees. He said Valley County Sheriff's Department seems to be a training ground for other areas because once people are trained, they can make more money in other communities and they leave. Under the present system Valley County cannot compete.

Mr. Kerr said that every exemption causes taxes to shift to a smaller and smaller group. He added that Valley County is made up of 92% state and federal lands for which they do not receive taxes. The population is a little over 7,500 but at any given time there are 30,000 to 40,000 people visiting. Valley County has to provide the infrastructure, sheriff and other services these people need and want. It is very difficult.

Mr. Kerr said that a reduction of 1% would cut revenue by 26% and that would be devastating. He said that if property taxes are reduced, counties need to be given tools necessary to make up the difference.

Mr. Mike Keithly

Mr. Keithly retired to Valley County. Since that time he has observed rising property taxes in the area. He said the unreasonable rise in property values and taxes is driving long time residents out of the area.

Mr. Keithly gave the following solutions.

- , Remove the loophole for developers
- , Increase the homeowner's exemption to \$100,000
- , Adjust the circuit breaker

Turn a deaf ear to lobbyists

He said that Proposition 13 caused many problems in California and that he would hate to see something like that happen in Idaho.

Ms. Glenda Frei

Ms. Frei is a farmer and rancher in Grangeville, Idaho. She said that owning farm property has nothing to do with someone's ability to pay taxes. It is not equitable to force farms to subsidize urban development.

Mr. Stan Kress - Superintendent of the Cottonwood School District #242

Mr. Kress spoke of the terrible unfairness of property taxes with regard to certain school districts. In 1995 the Legislature passed SB1560 that equalized the money that came to school districts because of property values. This gave more money to poorer school districts for maintenance and operation levies than to richer districts. This helped even things out until the recent cap was placed on property tax reimbursement that was given to school districts for maintenance and operation. In **Mr. Kress'** opinion this cap is short changing the school districts on the money they should receive causing most of them to raise supplemental levies or facilities levies and so on. He urged the committee to take into consideration the unfairness in property tax values from one school district to another in the deliberations.

Mr. Dan Largent

Mr. Largent agreed with **Mr. Johnson** that the development and speculation exemption pushes the property tax burden to others. He said that when his property value first increased he did not object but the 46% increase he got last year was too much, especially if values continue to rise. He said the developers should have to pay for growth.

Ms. Renee Mitich

Ms. Mitich agreed with **Mr. Largent**. She said since she moved her mother here four years ago, values have increased tremendously. She said that developers should be held responsible for growth, not the long time residents.

Mr. Ray Stark - Boise Metro Chamber of Commerce

Mr. Stark also owns property in Valley County. He explained that in 1978 Idaho got caught up in the same property tax relief proposition that California had passed. California did it with a constitutional amendment. The Idahoans interested in this simply took the California constitutional amendment and changed California to Idaho. It was placed on the ballot in November of 1978 and passed overwhelmingly.

The Legislature then had to figure out how to implement a California constitutional amendment into Idaho law. It was very difficult. They decided to freeze property taxes for two years in Idaho. This limited local governments and schools. Public schools were augmented with some income and sales taxes. **Mr. Stark** said that within three years, this caused the percentage of the state budget going to higher education to go down. It has been going down ever since.

Mr. Stark said that the Boise Chamber of Commerce would like to work with the committee on this property tax issue. He said that anything that is decided on needs to be fair to business, commercial property and residential property. It needs to fund the necessary services at the local level including public safety, schools and road and bridges.

Ms. Betty DeVeny

Ms. DeVeny said that government needs to look at curtailing expenditures. In her opinion there is quite a disparity between what residential property taxpayers pay and the services they receive as opposed to agricultural and commercial land.

Ms. Mardell Edwards

Ms. Edwards suggested the homeowner's exemption be removed completely because homes cause the need for the most services and the need for schools. She said also that all personal property should be taxed including boats, vehicles, RVs and four wheelers. This would be more fair for businesses who have to pay personal property taxes on their equipment.

Mr. Gary Albright

Mr. Albright said that growth should be required to pay for itself. He said that Ada County has high impact fees for new homes and this should be applied to Tamarack and other developments that are driving up property values.

Mr. Jack Childress

Mr. Childress said that random taxation is causing people who have lived in the area for many years to leave the area. He said that a person who bought a \$100,000 home twenty-five years ago and had their taxes doubled or tripled or more probably cannot afford to pay the taxes on that home today. They are more than likely retired on a fixed income. In his opinion, these people deserve to pay lower taxes. He also suggested that these property values be frozen until the homes are sold.

Mr. Childress said that full sales price disclosure would be very helpful in this property tax situation. A home should be assessed at the time it is built or when it is sold. It should then be reassessed each time it is sold at a 1% increase in the value. In his opinion, this would provide more than enough money to fund local governments. People would know what their taxes are and be able to plan accordingly. This would also save money by allowing counties to reduce the number of assessors they hire.

He also said that the developer exemption needs to be eliminated. Developers and speculators are getting rich while counties get no benefit but still have to provide services.

Ms. Mary Kolsky

Ms. Kolsky is retired on a fixed income. She built the house she now lives in and wants to be able to stay there. If property values and taxes keep increasing, she is afraid she will not be able to afford to stay. In her opinion taxes and values should stay the same until homes are sold.

Mr. George Cox

Mr. Cox is a retired teacher who lives in Donnelly on property his father purchased in 1970. His property values has increase three times and he now works part time to pay his taxes. He does not want to have to sell the property but wants to be able to pass it on to his children.

Ms. Kathy Phelan

Ms. Phelan is also a retired teacher. She said she now lives in a “scraper.” In her opinion the three legged stool needs to be balanced to make sure all legs are fair for all people. She suggested charging a surcharge on property when it is purchased.

Ms. Wendy Green

Ms. Green said the studies have shown that property tax is the most hated tax because it is the most unfair. She asked why should a tax be based on what someone else might pay for something. She said that a complete look at the tax system needs to be done instead of just a band-aid approach.

Mr. Cutter Umbach

Mr. Umbach said that people are upset because there is a perception that the distribution of property taxes is inequitable and unfair. He agreed that the state cannot afford to take a band-aid approach to this issue. Simply shifting taxes to someone else is not the answer.

Mr. Umbach said that something also needs to be done to repeal the developers exemption.

He suggested:

- , Capping the amount that property taxes can increase.
- , That the sales tax exemptions need to be reviewed and many should be eliminated. This would provide a great deal of property tax relief.
- , That fairness of application needs to be addressed. Some property on Payette Lake receives the ag exemption while other property does not.

Ms. Karen Johnson

Ms. Johnson likes social justice and civic responsibility. In her opinion the ag exemption needs to be changed because it shifts more of the burden to people like her. She suggested that to qualify for an ag exemption, people should be required to show income of at least \$5,000 from the land. She said that the Legislature cannot afford to just stand by and let this property tax issue continue. It needs to be fixed.

Mr. Phil Davis - Valley County Commissioner

Mr. Davis said that committee is getting a taste of what it is like to sit on a Board of Equalization hearing. He said their hearings took several days to complete. **Mr. Davis** said that the counties need to be involved in solutions to property tax issues because they are the ones who deal with it on a local level each year.

Ms. Ginny Ernsberger

Ms. Ernsberger said that she was concerned with the fact the although assessments are very high,

only two editorials have been in the McCall paper.

She explained that the property tax levy for schools is .003% of the full market value of a person's property.

Ms. Ernsberger proposed rolling back the value of retired people's property to the 2004 value and adding a 1% cap until the property is sold. In her opinion the new growth in the area will more than cover the difference of the 1% cap.

Mr. Jim Boring

Mr. Boring said that there is something wrong with a system that causes people to withhold information regarding the sales price of their homes. Full sales price disclosure should be required. It is necessary to avoid having assessors make an educated guess regarding property values. Adjustments need to be made for agricultural taxing loopholes and people spending large sums of money for real estate need to pay their fair share. He said something also needs to be done to guaranty money within the Valley County Road Department from a source other than timber dollars.

Mr. Don Lane

Mr. Lane stated that the Governor's veto was arrogance and the Legislature did not have the guts to stand up to him. As a result we are now faced with a super highway being built from Boise to the ski resort that the people have to pay for.

Mr. Michael Potts

Mr. Potts is retired. He pointed out that the working class younger people were not able to attend today's meeting because of the time scheduled. He said that regardless of that, they are concerned.

Mr. Potts stated that the developer tax loophole has got to be fixed. It is not an option. He also suggested increasing the amount of the homeowner's exemption as values go up. He asked what will happen with property taxes once the real estate bubble bursts.

In his opinion Proposition 13 is a good deal.

Ms. Patsy Kelly

Ms. Kelly suggested that to keep the ag exemption it should require at least ten acres of land and that the person must make at least \$1,500 a year. Any change in this exemption should encourage local agriculture use.

Ms. Maria Schuman

Ms. Schuman said that she worked hard to raise her children and to purchase her home in this area. Today her daughter cannot find an affordable house to buy nor can she afford to pay rent. **Ms. Schuman** is afraid her daughter will be forced to move out of the county due to cost and that will take her grandchildren further away from her.

Ms. Marion Johnson

Ms. Johnson's family has lived in the McCall area for over 100 years and hopes the fourth and fifth generations will be there also. She suggested allowing the taxes to be set five years retroactive due to the property value increases.

Ms. Kris Strike

Ms. Strike is the granddaughter of C.J. Strike making her a third generation resident of the area. She agreed with **Ms. Johnson** and said that Idahoans need protection from all of the out-of-staters that are moving into the area and driving property values up. She wants future Idahoans to be able to afford to live in the area. She also agreed with the suggestion to take taxes back five years.

Mr. Matt Williams - Valley County Prosecuting Attorney

Mr. Williams commented that the developer loophole needs to be eliminated.

He said that the fairness of taxation seems to be an issue with a lot of people. In his opinion this is mostly just a perception that the tax is not fair because it is linked only to the value of property. In his opinion the assessments the county is making are accurate. Since property value is increasing in the area, **Mr. Williams** suggested putting a cap on how much that can increase.

Mr. Williams said that as the area has grown, so has the demand for services in the county. Any change that would reduce the amount of funding the county receives will have a dramatic impact on the residents in the area. If changes are made, funds need to be made available from other sources to make up the difference. He said that the overall system needs to be reevaluated so that it is fair and equitable for all.

Ms. Augusta McGowan-Hass

Ms. McGowan-Hass works with the Valley County Assessor. She said that assessors have a very tough job and need to be given the correct tools to help them do that job. She said that full sales price disclosure would be one tool that would be very helpful.

Mr. Larry Remaklus

Mr. Remaklus has lived in Valley County since the 1930s. He said that the Legislature needs to do something to fix the property tax problem.

Representative Ken Roberts

Representative Roberts explained that part of the problem with the system is that the existing laws were formed in the last century when the economy was based on agriculture, mining and timber. Today the economy is based on electronics, recreation and a number of other industries that were not understood 60 years ago. In his opinion it is time for the state to restructure the property tax system.

Representative Roberts said that he sponsored three bills that have been presented in the last three sessions to fix the developer ag exemption loophole. This last year one was passed by the Legislature but later vetoed by the Governor. Timing was crucial. This needs to be readdressed this year. In Valley County alone in 2004 there was \$51 million of that developer discount loophole

claimed on property that is platted that has been sold. That transferred about a 5% increase to everyone else in Valley County that pays property tax.

He noted that society continues to want services including mosquito abatement districts, fire districts, ambulance districts, fully funded schools and roads that are in good shape. He said that there are a lot of taxing districts that are authorized by statute that rely on property taxes. These districts exist because local citizens voted for these districts and services. People need to realize adding these districts is adding another tax onto their property taxes.

Representative Roberts said that the school equalization formula is watched very closely by the Tax Commission to make sure that the market values that are used at the county level match that of the state. This is to make sure there is equity in the funding that is distributed statewide. The problem is that the maintenance and operation levy is unaffected by the 3% cap that is placed on other local government budgets. This means that no matter how much your property value increases, you will see the same increase in your taxes for the school levy with a one year delay. He said this also needs to be adjusted.

In response to a question from the audience, **Representative Roberts** explained that the bill the Governor vetoed allowed a 14 year time frame for unsold lots to be sold. Once a lot sells it goes to full market value and taxes must be paid on it.

Several people who testified, those who had to leave early and others who could not attend the meeting submitted written testimony.

The meeting was adjourned at 4:00 p.m.